THE ALBERTA SECURITIES COMMISSION
ANNUAL REPORT 1983/84

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Alberta
CONSUMER AND CORPORATE AFFAIRS

Office of the Minister

402 Legislature Building, Edmonton, Alberta, Canada T5K 2B6 403/427-2305

The Honourable G. Amerongen
Office of the Speaker
Legislative Assembly of Alberta

Sir:

I have the honour to submit the annual report prepared by the Chairman of the Alberta Securities Commission for the year ending March 31, 1984.

Respectfully submitted,

Connie Osterman

CONSTANTINE E. OSTERMAN
Minister of Consumer and Corporate Affairs

Alberta
SECURITIES COMMISSION

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The Honourable Connie Osterman
Minister of Consumer & Corporate Affairs

Madam:

I have the honour to submit the Annual Report of the Alberta Securities Commission for the year ending March 31, 1984.

Respectfully submitted,

W. T. Pidruchney, Q.C.
Chairman
Alberta Securities Commission

ANNUAL REPORT

1. OBJECTIVE

The objective of the Alberta Securities Commission is to regulate investment activity in the Province of Alberta through administration of the Alberta Securities Act and regulations.

2. ORGANIZATION OF THE COMMISSION

The Commission is a two-tiered structure which consists of a Commission Board ("Board") and the Commission staff, ("Staff").

2.1. The Board

The Board comprises a full-time Chairman and 5 part-time members appointed from the general public. The Chairman of the Board acts as chief executive officer of the Commission. The Commission Board was enlarged to 6 members this year by the additional appointments of Mr. Patrick J. Cashion, C.A. and by Mr. Norman F. Elsey, both of Calgary. Other members of the Commission are William T. Pidruchney, Q.C., Chairman; Douglas R. Craig, P. Eng., of Carbon; Robert G. Donlevy of Calgary and Edward B. Allan, F.C.A., of Edmonton.

The Board establishes policies for administration of the Act, acts as a quasi-judicial tribunal in conducting administrative hearings, and serves as an appeal body where required by statute.

In addition, the Board is designated as a hearing tribunal pursuant to other legislation including the Alberta Business Corporations Act, the Alberta Companies Act and the Investment Contracts Act.

The Commission has legislative authority for the administration of the Securities Act, the Franchises Act and the Deposits Regulation Act, which covers the solicitation of deposits from the public in certain stated circumstances by persons or organizations which are not otherwise regulated.

The Commission Board meets regularly every second week, alternately in Edmonton and Calgary, and holds additional meetings and hearings when and where required. Two major disciplinary hearings concluded in the reporting period lasted nine days in Edmonton and seventeen days in Calgary.

2.2. The Staff

At the end of March, 1984, the staff of the Commission numbered 57 full-time employees and 3 lawyers seconded from the Department of the Attorney General. Two positions were deleted in the year to meet manpower restraint requirements.

The Staff is organized into four sections:

2.2.1. The Securities section (which reviews prospectuses for the distribution of securities to the public);

2.2.2. The Franchises section (which reviews franchise prospectuses for the distribution of franchises to the public);

2.2.3. The Enforcement section (which conducts all investigations and carries out enforcement proceedings);

2.2.4. The Registration and Administration section (which attends to the registration of salesmen, dealers and advisors and attends to logistical requirements of the Commission).

The Commission operates two offices, located in Edmonton and Calgary, with the main office and majority of staff in Edmonton. The public service office in Calgary consists of four investigators and two secretaries, and is attended on a regular basis by the Commission Board, the Chairman, the Director, the Deputy Director/Enforcement and members of the legal staff.

3. ACTIVITIES AND OPERATIONS

Levels of administrative activity remained high throughout the fiscal year. Filings of preliminary prospectuses increased by 21% over the previous year for an all-time high in the Commission's history. An overall increase of 16% in all other filings also set a record. These increases are explained in large measure by issuers filing prospectuses to displace debt financing

by equity financing and thereby improving their balance sheets.

Operationally, the Commission operated within the guidelines of reduced budget and manpower allocation. The Commission continuously reviews its activities in light of the government's desire to eliminate unnecessary regulation and to be more sensitive to the needs of its public. The implementation of a management planning committee and regular management meetings assisted in meeting these objectives and in finding the appropriate balance between the operation of the free enterprise system and appropriate investor protection.

The Commission publishes a Weekly Summary, available to subscribers, which contains information on Commission orders, rulings, notices, new policies, and other matters relevant to the public.

The Commission initiated special projects during 1983/84, including an extensive up-dating of the Securities Act, a review and up-dating of the Regulations to the Act and a review and total re-writing of the Alberta Local Commission Policies.

The Commission continues its "experience-sharing" secondment programs in which individuals from investment industry related firms work at the Commission to gain insight into the regulatory process.

As a member of the Canadian Securities Administrators, the Commission participated in that group's regular semi-annual meetings and extraordinary meetings. This informal association of all provincial securities regulators in Canada works toward nation-wide compatibility or uniformity of regulation through the development of national and uniform policies adhered to by the signatory Commissions. A recent national policy was the Prompt Offering Prospectus System Policy. Also, agreement has been reached on uniform Take-Over bid rules.

Alberta participates with other key members of the Canadian Securities Administrators in national hearings in issues of consequence to Canada or to this province. In the past fiscal year,

Alberta was involved in the "Toronto Dominion Bank Green Line" hearing in Toronto, and in another hearing there relating to regulation of non-voting and restricted voting shares.

The Alberta Stock Exchange comes within the regulatory scope of the Securities Act. The Commission maintains a close contact and a good working relationship with the Board of Governors and the administration of the Exchange.

Regular communication is also maintained with the Investment Dealers Association of Canada, both through its national office in Toronto and through its Alberta District Council office in Calgary. The resulting co-operation provides an effective regulatory framework for the investment industry.

The Commission is a member of the North American Securities Administrators Association (NASAA) and is regularly represented at its semi-annual meetings. NASAA provides a window on all securities activities in the United States and in Mexico. The Alberta Securities Commission will host to the fall 1985 NASAA conference from September 29 to October 3 in Calgary.

Lawyers who practice securities law in Alberta have organized themselves into two securities bar groups located in Edmonton and Calgary under the auspices of the Canadian Bar Association. Highly responsive to regulatory concerns, these groups are participating with Commission staff and industry personnel on a committee formed to review and re-write all Alberta Securities Commission local policies. In addition to conducting regular meetings for their own purposes, the lawyers at times assist in the teaching of securities law at the universities in Calgary and Edmonton, and have assisted the Securities Commission by reviewing proposed amendments to the Securities Act and providing their comments, and by preparing briefs in response to Commission concerns as required. Lawyers involved in securities practice also have initiated the "Western Securities Law Institute Annual Seminars", which bring together regulators and industry personnel as well as securities lawyers, and are held in western Canada.

The Canadian Institute of Chartered Accountants and the Institute of Chartered

Accountants of Alberta continue to assist securities regulators across Canada, particularly by ongoing development of policies on generally accepted accounting principles and generally accepted auditing standards for incorporation in the C.I.C.A. handbook.

In addition to the above noted outside associations and groups, the Commission keeps in close touch with and enjoys the co-operation of numerous other agencies, among them the Toronto Stock Exchange, the Montreal Exchange, the Vancouver Stock Exchange, the Canadian Depository for Securities, the Winnipeg Commodities Exchange and the Investment Funds Institute.

The Alberta Securities Commission also regulates trades in franchises in Alberta by administering the Alberta Franchises Act, through the Commission staff and resources previously described. The Act was amended in June 1983 to provide the Director with greater discretion to grant exemptions from the full registration and/or prospectus disclosure requirements. While Alberta continues to be the only Province in Canada to have separate Franchise legislation, the majority of American states have such legislation, the North American Securities Administrators Association has a franchise subsection and there is an active Canadian Association of Franchisors. Beyond serving the residents of Alberta, the Commission continues to field questions on legislation and in particular on franchises from other government bodies and from citizens in other provinces.

4. THE SECURITIES ACT

The definition of securities is very broad, but the more common forms are stocks, bonds, debentures and notes. It may also include the sale of partnership interests, investment contracts and tax shelters of various types. The main purpose of The Securities Act is to require issuers of securities to provide to members of the investing public who trade in securities, all material information relating to the issuer and the securities being offered in order that investors may

make an informed business judgement when purchasing new securities.

4.1. Regulation of Securities

Before an issuer is allowed to sell securities from its treasury to the public, written information must be presented to the purchaser prior to the actual sale. This material can take a number of forms. The most frequently used documents are prospectuses, statements of material facts, rights offerings, and take-over bid circulars. The structure of the issuer can vary significantly and can be a corporate entity, a limited or general partnership, or a joint venture or syndication.

The Commission's securities section reviews these offering documents to determine that the issuer has complied with the securities legislation, its regulations and Commission policies and practices. An objective of the review is to see that the information being provided to potential investors provides full, true and plain disclosure of the information included regarding the offering, the issuer, its activities (current and historical) and its officers and directors. Only after the Commission's securities staff have completed a review and the offering documents have been accepted for filing are new securities allowed to be sold to the public. In addition, securities previously issued by way of exemption may also be permitted to be sold as a secondary offering along with the primary offering of shares from treasury.

Subsequent to finalizing and clearing a prospectus or certain other offering documents related to the sale of securities, an issuer becomes a reporting issuer and must provide to its equity security holders annual reports, notice of annual meetings and regular financial statements. Corporate insiders must report to the Commission all trades they make which involve their own personal company's shares.

Statistically, prospectus filings in the 1983/84 fiscal year increased by 21% over the 1982/83 fiscal year. Securities orders and rulings also increased by 5%.

In addition to the above forms of offering securities to the public, the new Securities Act has a large number of exemptions, through which issuers may sell securities to the public. The documents required to be filed with the Commission in connection with the use of these exemptions are not reviewed by the staff of the Commission.

4.2. Regulation of Registration

In general, registration is required before securities are traded with the public, whether the securities are in the form of common or preferred shares, mutual fund shares, bonds, debentures, term certificates or notes.

Through the registration of a company and its officers, directors and salesmen, the Commission strives to allow only trustworthy and knowledgeable individuals to deal with the public. Corporate registrants must at all times meet financial standards set by the Commission. In some cases companies and/or individuals must obtain bonding.

The two broad categories of registration are dealers and advisers. Dealers buy and sell securities as principals and agents, while advisers offer investment advice and/or manage investments. Four new dealers were registered in 1983/84. Not only do these new firms add to Alberta's importance as a financial center, but they offer Alberta investors alternatives in their selections of investments and markets.

There were three new registrations of security issuers in 1983/84. This category is similar

to a dealer registration but is usually granted for the purpose of selling one specific issue for a limited period of time.

The total number of salesmen registered under The Securities Act at year-end increased approximately 17 percent from the previous year-end.

The Commission staff are regularly monitoring those dealers who are not members of a self-regulatory organization recognized by the Commission, to ensure the dealers maintain the required net free capital and follow prudent business practices. This function serves as a preventative measure as well as assisting in related Enforcement matters.

4.3. Enforcement

4.3.1. Objectives

The often-stated goal of securities regulation is the protection of the investor. Under this philosophy, the Enforcement Section of the Commission performs a multi-faceted role. While not directly involved in the disclosure review process of securities offering documents, the Enforcement Section undertakes educational/preventative policing programs, surveys the securities market, monitors statutory filings, and conducts investigations into violations of the Alberta Securities Act and Franchises Act. As the "sharp end" of the Commission, the Enforcement Section will initiate and undertake such enforcement procedures as are appropriate to the case, including administrative and disciplinary procedures before the Director or the Commission Board, and the conduct of prosecutions in the courts of law.

4.3.2. Staffing

The Enforcement Section is headed by a Deputy Director who is assisted by a staff of seven investigators, one investigative accountant, and five support staff. The position of investigation counsel was created in January 1984, to provide for dedicated legal services to the Section. With a headquartered office in Edmonton, the Section also maintains an office in Calgary in the John J. Bowlen Building. The Calgary office is both an investigative office and a part-time executive office.

4.3.3. Operations

4.3.3.1 Statutory Filings - The Enforcement Section monitors the filing of forms, reports, and statements required by the Securities Act from reporting issuers, including financial statements, insider trading reports, proxy forms and solicitations, take-over bids, and exemption trades. Companies or individuals who fail to comply with the statutory filing requirements are liable to such enforcement procedures as the Deputy Director/Enforcement deems appropriate.

4.3.3.2 Cease Trading Orders and Denial of Exemptions Orders - These enforcement procedures are usually invoked where companies or persons have failed to comply with statutory requirements. These remedies are available on an interim 15-day basis without a hearing, or permanently upon a hearing before the Commission Board. During the

past fiscal year, the Commission issued 47 cease trading orders and 15 denials of exemptions orders. The effect of the administrative or disciplinary proceedings is to deny the respondent access to the securities markets of Alberta. It cannot be denied that administrative proceedings will often have grave civil and/or criminal repercussions. This was demonstrated in the Commission's administrative proceedings against Donald W. Reed et al, where the Commission imposed disciplinary sanctions following public hearings in May of 1983, in respect of certain misleading statements made in prospectuses filed with the Commission. Subsequently, the R.C.M.P. pressed criminal charges against Mr. Reed for publishing a false prospectus: Mr. Reed is currently serving 4 years imprisonment.

4.3.3.3 License Review - The Section is responsible for reviewing applications for registration under the Securities Act and Franchises Act of salesmen, supervisors, and management personnel. Some 123 background checks of directors were conducted through the Securities Fraud Information Centre, as part of the registration or approval process as an adjunct to preventative policing. Persons or companies who enjoyed registration may be subject to fitness review proceedings as was evidenced in public disciplinary hearings conducted in Hampton Securities Ltd., et al, which saw the Commission cancel the corporate registrant's license, and impose various sundry disciplinary orders upon key individuals of the company. At this writing, the Commission's orders for those sanctions are under appeal in the Alberta Court of Appeal. In Atrek Financial Management Ltd. and John David Harrison, the Commission cancelled the registration of both parties following a

hearing where misappropriation of client funds was proven. A police prosecution, on the same facts, in criminal court resulted in a jail term of 18-months for Mr. John Harrison. As well, Rhodes Denton Securities Ltd. had its license cancelled in May 1983 while Albert Dorin, Harris Weeks, Dorothy Giovanetto, and Francis Gorham were reprimanded before the Commission for certain securities trading indiscretions.

4.3.3.4 Market Surveillance - The enforcement staff surveys trading of securities on the Alberta Stock Exchange in Calgary, as well as the marketing of securities through the print media. Commission staff, Stock Exchange personnel, and representatives of the advertising media co-operate to ensure information exchange, in order to identify developmental situations which suggest possible violation. In fact, it was through the astute observations of a Commission staff investigator of wash-trading in the stock of Western Resources Minerals Ltd. on the Alberta Stock Exchange that prompted the Ontario Securities Commission to prosecute the key violator located in that province.

4.3.3.5 Investigations - The Calgary and Edmonton investigative staff expended approximately 10,300 hours on investigations and inquiries. As a consequence, the investigative staff identified a total of 287 cases which required follow-up inquiry, either under a formal investigation order or under the general policing power for conduct of informal investigations.

As a result of investigations, the Commission conducted prosecutions in select cases which were deemed sufficiently onerous for a judicial

penalty. During the past fiscal year, the Commission initiated some 48 separate charges under the Securities Act and 8 charges under the Franchises Act in respect of 14 different companies and individuals. Some of these charges are at various stages of judicial process. Matters of public record include, conviction of Michael Duggan, an insider of a public company, who persistently failed to file insider trading reports with the Commission. The court assessed a penalty of $750.00 on each of seven charges. In Regina vs Buck River Resources Ltd. and Waldemar Bruno Kerntopf, the court found, as a fact, that the investors were not of an exempt class of private purchasers, notwithstanding that each investor signed a certification to that effect. The majority of the Securities Act Prosecutions stem from violations of the registrations and prospectus filing provisions of the Securities Act. Judicial penalties in such prosecutions usually result in fines of between $200 - $300 on each charge.

4.3.3.6 Investor Education Programs - On the assumption that knowledge and awareness of the securities market would lead to less investor loss or dissatisfaction, the Enforcement Section has implemented an investor education program. Through the Commission's offices, and the various Regional Offices of the Department of Consumer and Corporate Affairs, the Commission has established a modest securities resource library. Consisting primarily of quarterly-produced "Investor Alert" bulletins and a videotape of the Canadian securities industry, the Commission supplements these resources with a Speakers' Bureau which can be integrated into the Department's consumer financial and budgeting educational programs. Such an integrated presentation was

successfully conducted in January 1984 to an overflow audience in Fort McMurray. As well, the enforcement staff continues to provide resources to the educational institutions, including the law schools in Edmonton and Calgary, as well as participate in "Law Day" activities.

4.3.3.7 Continuous Education and Enforcement Liaison - For effective operations, the enforcement staff must, of necessity, obtain and reciprocate information with other allied enforcement agencies, including other governmental bodies, stock exchanges, industry organizations, and the police. Within its budgetary restraints, investigative personnel have, in the past year, attended regional enforcement seminars conducted by The Toronto Stock Exchange and by American securities regulatory organizations. The Deputy Director/Enforcement continues to represent the Province of Alberta in the North American Securities Administrators Association Inc. (NASAA), almost entirely at that organization's financial expense. In April, 1984, NASAA voted in Washington, D.C. to host its Fall 1985 Conference in Calgary.

5. THE FRANCHISES ACT

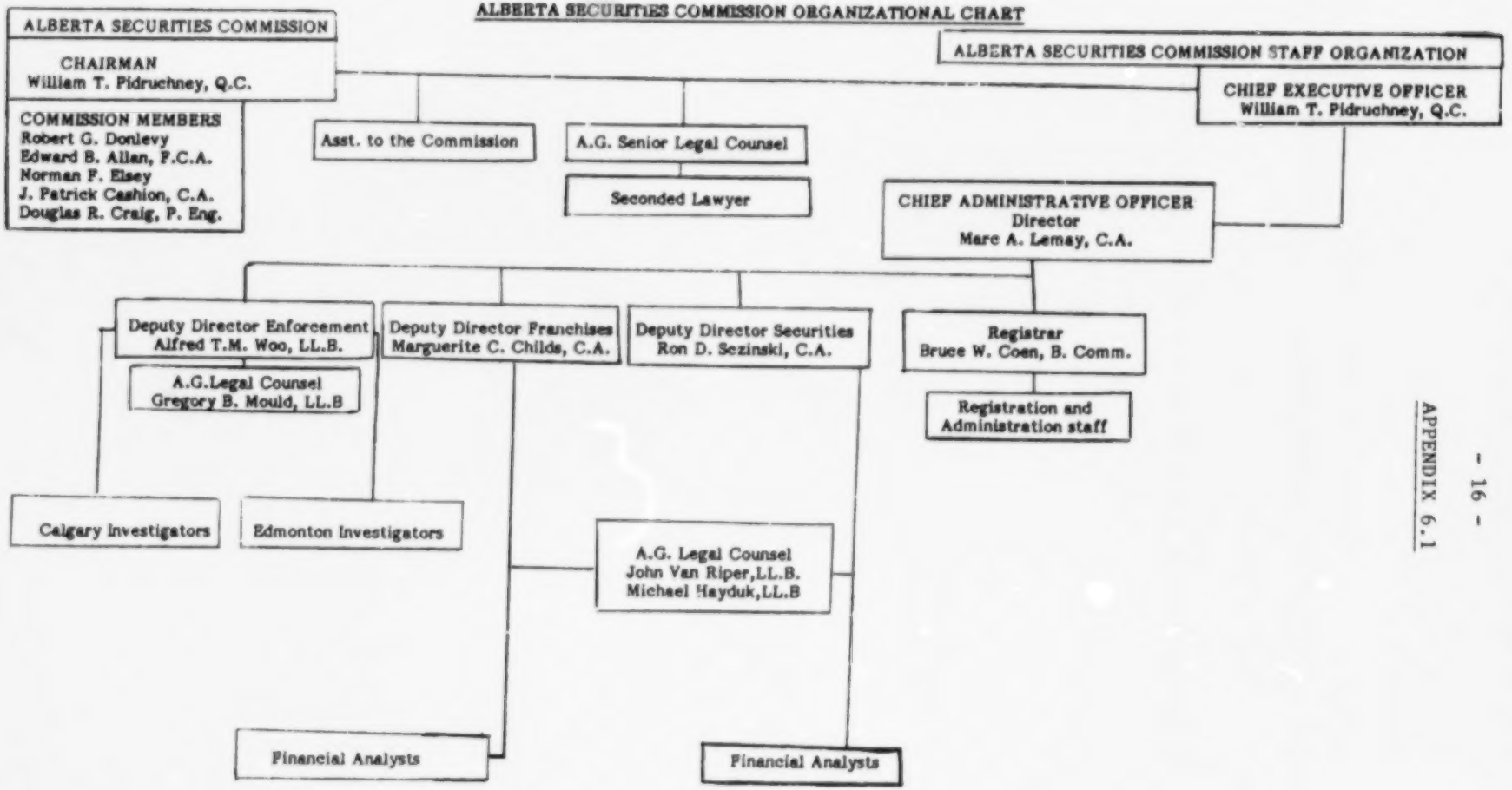
The purpose of the Franchises Act is to provide the franchise investor information with respect to the franchisor and the proposed franchise business in order that the investor can make an informed investment decision. Like the Securities Act, the companies selling franchises and the salesmen marketing the franchises are required to register and file a disclosure document. This document, which is either a prospectus or statement of material facts, is reviewed by the Commission staff to ensure full, true and plain disclosure.

Filings received for registration, exemption and amendments in the 1983/84 year increased 3 percent over those received in the 1982/83 year. There were 157 franchisors registered or exempted from registration in 1983/84. Salesmen's registrations received in 1983/84 increased 11 percent over those received in 1982/83.

The Franchises Act was proclaimed to be in effect on November 16, 1972. The Commission staff has offered advice to officials of other jurisdictions now contemplating the introduction of franchise legislation to assist in uniformity among the provinces. This advice, together with the education of the public in the franchise area, requires relatively more time than similar functions under the Securities Act.

APPENDIX 6.1

ALBERTA SECURITIES COMMISSION ORGANIZATIONAL CHART



ALBERTA SECURITIES COMMISSION

STATISTICAL INFORMATION

Applications Received Securities Act	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	Percentage change 82/83 to 83/84
Dealer Registrations	83	98	96	103	121	132	143	127	117	-8%
Amendments to Dealer Registrations	139	168	146	182	223	217	238	219	200	-9%
Preliminary Prospectuses	116	115	107	124	192	270	283	231	291	26%
Renewal Prospectuses	122	120	106	108	125	115	150	116	130	12%
Sundry Filings	210	224	410	439	658	765	747	1,063	1,442 (1)	36%
Salesman Registrations	600	672	706	730	791	978	1,175	1,177	1,428	21%
Salesman Transfers	21	23	56	21	38	40	137	234	227	-3%
Orders and Rulings	168	220	192	335	458	637	752	832	857	3%
	1,459	1,640	1,819	2,042	2,606	3,154	3,625	3,999	4,692	
Franchises Act										
Prospectuses and Amendments	19	28	49	59	96	121	128	105	100	-5%
Statements of Material Facts	23	38	53	52	49	51	54	63	74 (2)	17%
Salesman Registration	28	34	67	88	122	160	157	146	162	11%
	70	100	169	199	267	332	339	314	336	
	1,529	1,740	1,988	2,241	2,873	3,486	3,964	4,313	5,028	17%
Budget Summary (3)	$481,220	515,753	607,465	1,102,430	1,962,590	2,712,965	3,731,289	3,823,170	3,086,445	
Manpower										
Permanent Positions	27	27	27	41	49	56	59	59	57	
Lawyers seconded from the Department of the Attorney General	—	—	—	—	1	2	3	3	3	
	27	27	27	41	50	58	62	62	60	

Notes (1), (2) and (3) - see page 18

Appendix 6.2 - continued

ALBERTA SECURITIES COMMISSION

STATISTICAL INFORMATION -REFERENCE NOTES

Note 1. Securities Act Sundry Filings - 1983/84

Summary Statements	92	
Annual Information Statements	65	
Rights Offerings	69	
Statements of Material Facts	12	
Amendments to Prospectuses and Statements of Material Facts	61	299
Take-Over Bids	78	
Section 107, 110, 112	1,065	1,143
	1,442	

Note 2. Franchise Statements of Material Facts - 1983/84

Section 2 - Applications for Statutory Exemptions	35	
Section 3 - Applications for Discretionary Exemptions	32	
Section 18 - Applications for Extension	7	74

Note 3. Budget Summary

Includes special warrants in the fiscal periods ended in 1980, 1981, 1982, and 1983.

Appendix 6.3

6.3 POLICIES AMENDED OR IMPLEMENTED DURING 1983/84

6.3.1. National Policy #2-A (New): Guide for Engineers, Geologists and prospectors Submitting Reports In Mining Properties To Canadian Provincial Securities Administrators.

This new policy supplanted those portions of National Policy #2 that dealt with the preparation and content of mineral property reports.

6.3.2 National Policy Statement #35 (New): Purchasers Statutory Rights.

This new policy adopted a short statement of withdrawal and rescission rights that is acceptable in all prospectuses.

6.3.3. A.S.C. Policy #3-25 (New): Registrants Declaration of Personal Bankruptcy.

This new policy details the action the Commission will take in the case of the bankruptcy of an existing registrant as well as the bankruptcy of a new applicant.

6.3.4. A.S.C. Policy #3-26 (New): Interpretation of Sections 184 and 123 and Their Applicability To Certain Reporting Issuers.

This new policy clarifies the Commission's exercise of exempting powers under certain sections of the Act as it pertains to certain reporting issuers.